

1 **DIRECT TESTIMONY**

2 **OF**

3 **JULIE M. CANNELL**

4 **DOCKET NO. 2009-489-E**

5
6 **Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.**

7 A. My name is Julie M. Cannell. I am the president of my own advisory firm,
8 J.M. Cannell, Inc. My business address is P.O. Box 199, Purchase, NY 10577.

9 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL**
10 **BACKGROUND.**

11 A. My firm, J.M. Cannell, Inc., provides investor-related advisory services to
12 electric utility companies and other firms and organizations with an interest in the
13 industry. Prior to establishing my firm in February 1997, I was employed by the
14 New York-based investment manager, Lord Abbett & Company, from June 1978
15 to January 31, 1997. During my tenure with Lord Abbett, I was a securities
16 analyst specializing in the electric utility and telecommunications services
17 industries; portfolio manager of America's Utility Fund, an equity utility mutual
18 fund, for which Lord Abbett was a sub-advisor; portfolio manager of numerous
19 institutional equity portfolios; and co-director of Lord Abbett's Equity Research
20 Department.

1 My educational credentials include a B.A. from Mary Baldwin College,
2 M.Ln. from Emory University, and M.B.A. from Columbia University. I am also
3 a Chartered Financial Analyst (C.F.A.).

4 I have been a member of the Wall Street Utility Group, an organization of
5 security and credit rating analysts having an expertise in the utility industry, for
6 over thirty years.

7 **Q. ON WHOSE BEHALF ARE YOU PROVIDING DIRECT TESTIMONY IN**
8 **THIS PROCEEDING?**

9 A. I am providing Direct Testimony on behalf of South Carolina Electric &
10 Gas Company (“SCE&G” or the “Company”).

11 **Q. HAVE YOU SUBMITTED TESTIMONY PREVIOUSLY BEFORE ANY**
12 **STATE REGULATORY AGENCIES?**

13 A. Yes, I have. I have submitted pre-filed testimony on behalf of investor-
14 owned utilities before Public Service or Public Utility Commissions in the states
15 of Arizona, Colorado, Connecticut, Kansas, Massachusetts, Missouri, Nevada,
16 New York, Oklahoma, Pennsylvania, Rhode Island, Texas, Virginia, Washington,
17 and Wisconsin.

18 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?**

19 A. Yes. I have testified on behalf of SCE&G regarding the Company’s cost of
20 capital before the Public Service Commission of South Carolina (“PSC” or
21 “Commission”) twice before: in 2007, in Docket 2007-229-E; and in 2004, in
22 Docket 2004-178-E.

1 **Q. HAVE YOU HAD ADDITIONAL REGULATORY EXPERIENCE?**

2 A. Yes. As a consultant to the Edison Electric Institute, I have been
3 extensively involved since 2004 in an ongoing initiative geared toward fostering
4 and improving communications between state regulators and the investment
5 community. This effort has centered on a series of forums held throughout the
6 United States bringing together these two constituencies, sponsored by the Edison
7 Electric Institute and facilitated by Gee Strategies president Robert Gee, former
8 chairman of the Texas Public Utilities Commission and former assistant secretary
9 for the Department of Energy. In addition to helping structure these dialogues, my
10 role has been to moderate panel discussions of equity and debt security analysts.

11 I have also conducted several studies of investor perceptions of regulatory
12 issues. Further, I have written articles addressing the implications for utilities and
13 state regulators of various topical issues, including the current electric industry
14 capital expenditure cycle, and, most recently, the financial crisis.

15 **Q. WHAT IS THE SCOPE OF YOUR DIRECT TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. I will address the perspective of investors in regard to the Company's rate
18 proposal and will provide comments on several areas: (1) investors' perspective of
19 risk due to the extensive investment currently being undertaken by electric utilities
20 in general and the Company in particular; (2) investors' perception of risk as
21 impacted by current macroeconomic conditions and reflected in an increase in the
22 trend in allowed returns on equity ("ROE"); and (3) investors' expectations for a

1 continuation of the constructive trend of the South Carolina regulatory climate to
2 ensure the Company's continued access to the capital markets.

3 **Q. WHAT IN YOUR EXPERIENCE ALLOWS YOU TO PROVIDE**
4 **TESTIMONY ABOUT INVESTORS' PERSPECTIVES AND**
5 **EXPECTATIONS?**

6 A. As a securities analyst, I specialized in the electric utility industry and the
7 individual companies comprising it. And as a portfolio manager, I applied that
8 knowledge, along with investment fundamentals, in making investment decisions
9 on behalf of institutions and individual investors. My experience has given me
10 familiarity with the information and tools that investors use in making decisions
11 with respect to expected ROEs. Moreover, I have reviewed the various reports of
12 security analysts, which have addressed the Company and its regulatory situation.
13 Further, I have familiarized myself with the Company's fundamentals and its
14 planned investment levels.

15 **Q. AS AN ANALYST OR PORTFOLIO MANAGER, DID YOU FOLLOW**
16 **THE COMPANY?**

17 A. Yes, I did. Both Lord Abbett and America's Utility Fund periodically
18 maintained a holding in the common stock of the Company, and after the creation
19 of a holding company, in its parent, SCANA Corp. ("SCANA").

20 **Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED.**

21 A. There are four parts to my testimony.

1 **I. Investors' Requirements for Increased Returns in Utility Investments.** This

2 section discusses the investment risk of electric utilities; specifically, why the
3 current construction cycle has increased the risk of investing in the industry. It
4 also addresses how regulatory risk has risen due to this higher capital spending.

5 **II. The Macroeconomic Environment.** This section discusses the elevated risk

6 created by the global economic crisis.

7 **III. Investors' Expectations for Returns and Perceptions of the Current**

8 **Proceeding.** This section focuses on how investors actually make their decisions,
9 reviewing the investment community's perceptions of the Company and South
10 Carolina regulation. This review is based on a number of recent publications by
11 investment analysts discussing their perceptions of the Company and its regulatory
12 environment.

13 **IV. Investor Expectations for Return on Equity for SCE&G and SCANA.** This

14 section discusses how investors would view the Company's request for an
15 authorized ROE of 11.6%.

16 **I. INVESTORS' REQUIREMENTS FOR INCREASED RETURNS IN**
17 **UTILITY INVESTMENTS**
18

19 **Q. PLEASE EXPLAIN WHY THE INVESTMENT COMMUNITY'S VIEW OF**
20 **AN ELECTRIC UTILITY'S STOCK IS IMPORTANT TO THE UTILITY**
21 **AND ITS CUSTOMERS.**

22 **A.** Electric utilities are in the business of providing their customers with safe,
23 reliable, and efficient service. This requires extensive investment in generation,

1 transmission, and distribution infrastructure, which makes the electric utility
2 business capital-intensive. Investors provide the capital necessary to maintain and
3 expand a utility's infrastructure, which in turn enables utilities like the Company
4 to provide safe, reliable, and efficient service to customers.

5 The terms on which the Company is able to obtain that capital have a direct
6 and measurable impact on customers and the amounts they pay for electric service.
7 For example, if credit rating agencies such as Moody's Investors Service
8 ("Moody's"), Standard & Poor's ("S&P"), or Fitch Ratings ("Fitch") believe that
9 the utility's revenues will be diminished by adverse business or regulatory
10 decisions, those rating agencies could lower their credit ratings for the utility,
11 which would raise the cost of debt. And, because the cost of debt is a component
12 of the weighted average cost of capital, the increased costs of capital would
13 eventually be passed on to customers in the form of higher rates.

14 The same is true for equity investors. If individual or institutional investors
15 believe that the return they are offered is too low in light of the risk involved, they
16 will either sell their stock or elect not to purchase the stock, which generally drives
17 the stock price down. Although lower stock prices would appear at first blush to
18 be a concern only to investors, they also affect customers. When a utility has to go
19 to the equity markets to obtain capital, a low stock price requires it to issue more
20 shares of stock to obtain the same amount of money than it would have received
21 for fewer shares if the per share price had been higher. The resulting increase in

1 the number of shares outstanding requires more dollars to be expended toward
2 dividends, resulting in less retained earnings for reinvestment in the company.

3 The corollary is that when investors believe that they are investing in a
4 company where regulation is fair, consistent, and provides a reasonable rate of
5 return, those investors charge less for their capital. And when debt and equity
6 investors demand less for their capital, utility rates remain lower and utilities have
7 more ready access to the capital markets. Thus, a utility and its customers have a
8 shared interest in meeting the expectations of investors and credit rating agencies.
9 Regulators share this interest as well, because fair treatment of one utility
10 decreases the costs of capital for all utilities in that regulatory jurisdiction.

11 **Q. ARE YOU SUGGESTING THAT THE COMMISSION'S DECISIONS**
12 **SHOULD BE DICTATED BY INVESTORS?**

13 A. No. I realize that the Commission must balance the interests of investors
14 and customers. My point is that the Commission's decision on rate of return is not
15 simply a zero-sum game. If the rate of return strikes an appropriate balance
16 between the utility and customers, both benefit. If the rate of return is set too low,
17 both the utility and customers are adversely impacted because the cost of capital
18 increases over the long term.

19 **Q. HOW DO INVESTORS EVALUATE AN INDUSTRY SECTOR AND**
20 **SPECIFIC COMPANIES WITHIN AN INDUSTRY?**

21 A. Investors arrive at investment judgments by essentially a two-step process.
22 First, they make judgments about the benefit of owning stock in particular industry

1 sectors and the investment risks that apply to those sectors as a whole. This step
2 incorporates a consideration of macroeconomic factors. Step two involves
3 examining company-specific risk factors, which are additive to sector risk. In
4 other words, investors first determine the risk involved in investing in a particular
5 sector. They then add to that sector risk the specific risks applicable to individual
6 companies. My evaluation of how investors make decisions concerning investing
7 in SCE&G bonds and SCANA stock follows this same approach. My evaluation
8 first looks at the risks and benefits of investing in the electric utility sector, then
9 examines the risks specific to investing in SCE&G and SCANA.

10 **Q. PLEASE EXPLAIN HOW THE INVESTMENT COMMUNITY VIEWS**
11 **UTILITY STOCKS AS INVESTMENTS.**

12 A. Historically, electric utilities have been regarded as investment vehicles that
13 provide stable performance through the ups and downs of market cycles and
14 changing economic conditions. Electric utilities historically have earned a
15 reasonable return even when conditions were not favorable for other companies.
16 Accordingly, electric utility stocks have been particularly valuable holdings when
17 conditions were not conducive to investments in more volatile industry sectors. In
18 other words, investors would likely see greater returns from investment in other
19 industries when times were good, but they would lose less on electric utility stocks
20 when times were less favorable.

21 In addition, the reliability of electric utilities' earnings streams historically
22 has permitted most of the companies to continue to pay regular dividends during

1 both good and bad economic cycles. For investors with a need for regular cash
2 income, the prospect of regular dividends has been an important consideration in
3 making a decision to invest in electric utility stocks.

4 Based on these factors, investors traditionally have viewed electric utility
5 stocks as bond substitutes. In other words, electric utility stocks have provided
6 regular cash returns in the form of dividends and the shares themselves were seen
7 to have a stable underlying value. Historically, electric utilities have paid out a
8 large proportion of their earnings as dividends, and their large construction
9 programs have kept them dependent on the capital markets. As a result, electric
10 utility stocks as a group have tended to move closely in line with the direction of
11 interest rates, but in an inverse relationship. That is, utility stock prices rose when
12 interest rates fell, and vice versa. These factors made owning electric utilities a
13 way of balancing the risks in a stock portfolio that included stocks in more volatile
14 industries. However, that historic relationship between utility stock prices and
15 interest rates has not been consistent of late. This is due in part to fundamental
16 concerns that investors have about the major capital expansion program the
17 industry is facing and the amount of capital that will be required to fund it, among
18 other issues.

19 **Q. HOW HAS THE RISK OF INVESTING IN ELECTRIC UTILITIES**
20 **CHANGED IN RECENT YEARS?**

21 A. Over the last ten to fifteen years, the predictability of the electric utility
22 industry's earnings, across the sector, was undermined by the restructuring of the

1 industry that has taken place in many parts of the country. In addition, during the
2 past several years, it has become clear to investors and others that the industry is
3 entering into a major new construction cycle. This new construction cycle reflects
4 the need utilities have to replace aging infrastructure, to meet new environmental
5 requirements and expectations, to address the need for grid enhancements, and to
6 add new base-load and intermediate generation resources to meet growing
7 customer needs. The resulting increase in capital expenditure means that utilities
8 will be more active in capital markets in future years and, therefore, will be more
9 exposed to the risks and uncertainties in those markets. Electric utilities will also
10 be more exposed to regulatory risks, since a significant expansion of capital
11 spending by electric utilities usually results in rate proceedings to recover the costs
12 associated with that capital. As a result, regulatory exposure has become a key
13 focus for investors as utilities face a series of rate cases in order to recover the
14 costs they are incurring to supplement and replace aging infrastructure, to meet
15 environmental requirements, and to meet other costs. These risks are in addition
16 to the other risks posed by the technological, economic, environmental and other
17 policy changes that also affect the industry. It is because of these increased risks
18 that investors no longer perceive electric utilities as a group as being the “safe
19 havens” they once were.

1 **Q. HAVE INVESTORS' GOALS FOR UTILITY INVESTMENTS CHANGED**
2 **IN RESPONSE TO THESE INCREASED RISKS?**

3 A. No. Investors' goals for electric utility investments have not fundamentally
4 changed. They still look to electric utilities primarily as defensive investments,
5 and still look for stable performance and regular dividends as the reason to invest
6 in electric utilities. But investors also understand that the investment risk in
7 electric stocks has risen significantly, and their expectations of returns have
8 changed accordingly.

9 In the end, investors have a very large universe of stocks from which to
10 select; with few exceptions, they have no requirement to own electric utility
11 stocks. To the extent that they do invest within the utility sector, investors must be
12 discriminating in their stock selection. As a result, utilities with strong financial
13 metrics operating in constructive regulatory environments will have stronger
14 investment appeal than utilities with weak metrics and less favorable regulation.

15 **Q. PLEASE EXPAND ON HOW INVESTORS VIEW THE INDUSTRY'S**
16 **CURRENT CONSTRUCTION CYCLE AS A RISK.**

17 A. In its annual regulatory study, *Capital Management*, Barclays Capital
18 explores extensively the ramifications of the current construction cycle. The study
19 begins by noting that "[w]e are in the third year of the infrastructure build cycle
20 for regulated utilities that began in 2007. Based on our 2009 capex [capital
21 expenditures] survey, we now anticipate that the industry will proceed with a pre-
22 dividend free cash flow deficit through at least 2013, but likely significantly

1 longer.” Barclays estimated that over the next five years, capital spending in the
2 industry will be double the industry’s annual depreciation and amortization
3 expense, resulting in growth in industry rate base at an average annual pace of
4 6.3%. Barclays concludes that, as was the case in the last major construction cycle
5 in the industry which occurred in 1973-1984, “the risks of this build cycle will
6 offset much of the growth opportunity in share performance through the
7 construction period.” Barclays refers to the risks involved in this construction
8 period as “financial headwinds” which it assesses as follows:

- 9 • The headwinds we forecast will likely come from the dilutive effect of
10 heightened external capital funding requirements, regulatory risk in a
11 rising rate environment and execution risk associated with a significant
12 construction program. The best performing stocks over the cycle will
13 likely be those spending on infrastructure with the highest public policy
14 support, with the highest quality balance sheets, doing business in the
15 best regulatory jurisdictions.
- 16 • In the long term, structural headwinds should persist for regulated
17 utilities, owing to risks associated with capital acquisition, construction
18 execution, and regulatory recovery in a rising rate-base environment.
19 The bulk of this report is focused on these long run trends. As a result
20 of these trends, we would be owners of the most constructive regulatory
21 jurisdictions, the strongest balance sheets, and most capable
22 managements.
- 23 • In the intermediate term, we are looking for potential catalysts around
24 rate case filings and equity issuance schedules.¹

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¹ Barclays Capital. Capital Management. July 16, 2009.

1 **Q. DID BARCLAYS ALSO ADDRESS THE RATE CASE PROCESS?**

2 A. Yes. Barclays noted the added problem of regulatory lag caused by the use
3 of historic test years during a time of substantial investments:

4 During periods of rising capital expenditures and rate base as well as rising
5 costs, utilities with historic test years cannot fully recover those rising costs
6 over time. That is, during periods of free cash flow deficits, revenues
7 meant to offset depreciation, capital, and operating costs, for utilities with
8 historic test years are often delayed versus the actual incurrence of these
9 costs due to the review process.

10
11 As FCF [free cash flow] deficits have increased, this has in turn increased
12 balance sheet strain, regulatory scrutiny, and execution risk. Investors may,
13 as a result, demand a higher risk premium. ...we would expect to see risk
14 premiums spike to the area of 13.5% by 2010 versus the 3.17% seen in
15 2008, before moderating in the 11%-12% area from 2011 to 2013.
16 [Earned] returns should move lower with the increase in equity risk
17 premiums.
18

19 **Q. ARE INVESTORS CONCERNED ABOUT STATE REGULATION IN THE**
20 **CONTEXT OF MOUNTING RISK?**

21 A. Yes. Nationally, in the past several years, rate case filings in the electric
22 industry have become much more frequent. From an investor's perspective, each
23 regulatory proceeding introduces a period of uncertainty for a utility. Among the
24 unknowns are the ROE the company will be allowed to earn, the equity base on
25 which that return can be earned, the extent to which costs—both historical and
26 future—can be recovered, and the degree to which the rate case will prompt a
27 negative regulatory reaction. In other words, the utility's future earnings power is
28 thrown into question until the case is decided. Because that earnings power is the

1 basis for an investment in the company, the stability and constructiveness of state
2 regulatory policies are critical concerns to investors.

3 **Q. PLEASE ADDRESS HOW INVESTORS ASSESS THE SPECIFIC RISKS**
4 **THE COMPANY IS FACING IN RELATION TO THE NEW CAPITAL**
5 **INVESTMENT CYCLE.**

6 A. Investors understand that SCE&G is involved in the industry-wide
7 construction and capital investment cycle in a significant way. During 2006-2009,
8 SCE&G invested \$2.3 billion in its utility system. From 2010 through 2012, the
9 current expectation is that it will spend a total of \$3 billion of new capital for the
10 electric system, averaging slightly over \$860 million a year in the next two years
11 before ramping up to over \$1.2 billion in 2012. It bears mention that, while some
12 of the planned capex is earmarked for the V.C. Summer nuclear expansion project,
13 significant expenditures will be required to maintain and expand the existing
14 utility distribution and transmission system. During the 2010-2012 period, the
15 Company will need to access the equity and debt markets, sometimes requiring
16 funding from both sources in the same year. The Company (and its parent, which
17 supplies it with equity) will thus be exposed to market vicissitudes and pricing
18 levels.

19 **Q. DOES THE COMPANY FACE FURTHER RISKS?**

20 A. Yes. With its major planned capital spending, it is clear that SCE&G will
21 face regular rate cases. Even though expenditures related to the Summer nuclear
22 project will be addressed in separate proceedings under South Carolina's Base

1 Load Review Act, recovery of the substantial costs of maintaining, renewing and
2 replacing a mature utility infrastructure as well as responding to current and future
3 environmental and carbon requirements is likely to require base rate cases
4 routinely during the coming years.

5 **Q. WHAT IMPLICATIONS DOES REGULATORY LAG, AS HIGHLIGHTED**
6 **IN THE BARCLAYS' ANALYSIS, HAVE FOR SCE&G?**

7 A. South Carolina regulatory practice utilizes an historical test year with
8 adjustments permitted for known and measurable changes. While these known
9 and measurable adjustments mitigate the impact of regulatory lag for the items that
10 are subject to them, only a limited subset of investment and expense benefits.
11 Therefore, the adjustment does not keep the Company as whole as would a future
12 test year. As a result, investors will have questions about the timing and certainty
13 of the utility's cash recovery of costs. It is thus reasonable to expect investors to
14 increase somewhat the risk premiums they would require to supply the Company
15 with capital, given this regulatory structure.

16 **Q. DOES SCE&G FACE ADDITIONAL RISKS IN THE MARKET FOR**
17 **ENERGY?**

18 A. Yes, it does. A major risk is rising environmental requirements such as
19 renewable portfolio standards or renewable energy standards, mandated DSM
20 expenditures, and various forms of carbon regulation, coupled with a significantly
21 heightened public concern around of climate issues. While utilities have long
22 faced environmental compliance costs, such expenditures are likely to rise to a

1 new level. These environmentally-related costs will more likely put pressure on
2 total electricity costs, and thus make it more difficult for the public to accept rate
3 increases required to recover other necessary expenses. Because coal-fired
4 generation currently constitutes over half of its total capacity, SCE&G faces a high
5 exposure to carbon regulation until the new nuclear project is complete.

6 **Q. YOU'VE DISCUSSED THE MOUNTING RISKS YOU SEE THE**
7 **COMPANY FACING. DO THOSE RISKS HAVE THE POTENTIAL TO**
8 **REDUCE ITS EARNINGS AND CASH FLOW STREAMS AND**
9 **INCREASE THEIR VOLATILITY?**

10 A. Yes, they could, due to the fact that the foregoing factors are in large part
11 beyond SCE&G's control. Where risk factors are more clearly within the
12 Company's control, investors can evaluate the importance and effect of those risks
13 based on their assessment of the strength of the Company's management, and
14 guidance about how the Company plans to mitigate or avoid the risks in question.
15 In this case, the nature of the risk is such that the Company's investors have little
16 guidance and more uncertainty. Uncertainty leads to investor concern and
17 demands for higher investment returns.

II. THE MACROECONOMIC ENVIRONMENT

Q. WHAT MACROECONOMIC CHALLENGES ARE UTILITIES FACING AT THE PRESENT TIME?

A. The United States and, indeed, the world economies are, or have been, in recession and grappling with a very serious financial crisis. While few industries are untouched by these circumstances, utilities are particularly vulnerable because of their capital-intensive nature and the magnitude of the construction expenditures they now face.

Q. HOW HAS THE FINANCIAL CRISIS AFFECTED THE INDUSTRY?

A. With the demise of a number of investment and commercial banks, coupled with the significant weakening of surviving institutions, access to capital was initially difficult for most companies and impossible for others. While the capital markets are currently functioning, the unprecedented volatility that has characterized the markets over the last eighteen months negatively impacted the terms and cost of capital.

Utilities are significantly impacted in this environment because of their need to raise equity and debt to fund mounting construction programs. Despite their best efforts to ensure an adequate supply of capital, utilities will continue to face uncertainty in the markets. With fewer lenders now in existence, there is simply less capital available—a circumstance which is expected to continue. This has the effect of increasing competition for the capital that is available, both within and beyond the utility sector. Additionally, surviving institutions are imposing

1 more stringent lending standards. Higher capital costs put greater pressure on
2 utility rates, which increases the risk for investors that some regulators will be
3 unwilling to let utilities recover their increased costs.

4 In this environment, set in the context of rising capital expenditures for the
5 industry at large and the Company specifically, it is important that the
6 Commission recognize that investors require a level of return that reflects the
7 increased level of risk.

8 **Q. WHAT ADDITIONAL IMPLICATIONS DOES THE FINANCIAL CRISIS**
9 **HOLD FOR UTILITIES?**

10 A. The current environment presents a distinct challenge to the industry. At a
11 time when utilities are starting major expansion initiatives, access to the capital
12 markets has become more questionable. As the financial crisis unfolded in the
13 2008-2009 period, utility companies learned that they could not count on being
14 able to finance their capital needs precisely on demand. Instead, at times market
15 access was limited, volatile, and very expensive. While the markets are now open
16 and the cost of access has dropped from the crisis peak, industry leaders, investors
17 and other participants in the market understand that such instability could return
18 again. Importantly, the industry must retain access to capital on reasonable terms
19 during this period of market uncertainty in order to provide safe and reliable
20 service to customers. This will require balanced and consistent regulation. During
21 this period, it will be imperative for electric utilities and regulators to
22 communicate effectively and work together to find the right balance in satisfying

1 the needs of all constituencies in this challenging environment. Maintaining a
2 solid regulatory compact will be critical.

3 **Q: WHAT DO YOU MEAN BY A SOLID REGULATORY COMPACT?**

4 A. The regulatory compact means that utilities will take the risk to invest in
5 the infrastructure and assets needed to provide safe, reliable, and efficient electric
6 service, and that regulators will support that investment by providing timely
7 recovery of costs, reasonable returns on prudently invested capital, and regulatory
8 treatment that, in general, is fair, predictable and balanced. It does not involve
9 favoring any one group of interested parties in the regulatory process over others,
10 but recognizes the key relationship between investment of capital by the utility,
11 and the need for recovery of operating costs, capital and returns to support prudent
12 investment.

13 **Q. DOES THE COMPANY'S FINANCIAL HEALTH AND INVESTMENT**
14 **GRADE CREDIT RATING GUARANTEE IT EASY ACCESS IN THE**
15 **CREDIT MARKETS?**

16 A. No. As previously discussed, the turmoil in the financial markets has
17 resulted in no company—no matter how financially strong—having carte blanche
18 access to debt and equity financing. The stronger the company, the better the odds
19 that financing would be available, but there are no guarantees.

1 **Q. WHAT FACTORS SUGGEST THAT IMPROVEMENT MAY STILL BE**
2 **SLOW TO COME IN THE ECONOMY, WITH ATTENDANT NEGATIVE**
3 **IMPLICATIONS FOR THE MARKETS?**

4 A. News sources contain articles on almost a daily basis conveying that the
5 economy is still fragile and the opportunity for additional shocks to the system
6 exists. For example, the Federal Reserve Board has signaled that it would cease
7 its program of Treasury bond purchases in coming months, which will remove an
8 important stabilizing feature from the markets. The Federal Reserve Board has
9 also acknowledged that it will be faced with a delicate balancing act of
10 maintaining a weak but rebounding economy while not fueling inflationary
11 pressures in the process. Another major problematic area is commercial real
12 estate, which has billions of dollars of loans coming due and limited prospects of
13 repayment. A crisis here could exacerbate ongoing problems in the already weak
14 banking sector. And the possibility of markets being disrupted by unanticipated
15 events from around the world always exists. For example, the liquidity problems
16 that surfaced in November 2009 at Dubai's government-owned investment
17 company rattled capital markets globally; the possibility was real that those
18 problems could have put the global economy back into the turmoil and
19 dysfunction that existed in late 2008. Had the Dubai liquidity problems not
20 resolved themselves quickly, the impact on the financial markets could have been
21 very destructive. The latest concern is over the sovereign debt of Greece and
22 Spain, and whether the Euro market will survive. In short, given the unstable

1 economic backdrop that still exists globally, there are numerous possibilities for
2 circumstances and/or events that could plunge the financial markets back into a
3 crisis mode. In short, risks are heightened.
4

5 **III. INVESTORS' EXPECTATIONS FOR RETURNS AND PERCEPTIONS OF**
6 **THE CURRENT PROCEEDING**

7 **Q. WHY IS THE PERCEPTION OF REGULATORY CLIMATE OF SUCH**
8 **IMPORTANCE TO INVESTORS?**

9 A. Equity investors today still seek companies that can offer stability in
10 earnings and dividends. Fixed income investors look for stable and adequate cash
11 flows to ensure payment of principal and interest when due, as indicated by stable
12 credit ratings. The ability to pay dividends and sustain credit ratings is directly
13 related to the consistency and sufficiency of a utility's earnings, which depend in
14 large part on how the utility is regulated and managed. If there is uncertainty
15 about whether regulation will allow a utility the opportunity to earn a reasonable
16 return in future years, then that uncertainty will lead investors to avoid holding
17 investment positions in the utility, all other things being equal.

18 As a result, investors selecting electric utility stocks today place a very high
19 value on consistent and constructive regulation. And, with a new round of base
20 rate case filings underway in the industry, the quality of regulation is receiving
21 increased investor attention.

1 **Q. IN YOUR EXPERIENCE AS AN ANALYST AND PORTFOLIO**
2 **MANAGER, COULD A PERCEIVED CHANGE IN A COMPANY’S**
3 **REGULATORY CLIMATE AFFECT YOUR INVESTMENT OPINION?**

4 A. Absolutely. During my tenure as an institutional investor, a utility’s
5 regulatory environment was a critical factor in my assessment of its investment
6 attractiveness. An adverse regulatory decision could be a key determinant in my
7 recommendation or decision to sell a stock already owned or not to make an
8 investment in one under consideration.

9 **Q. HOW HAVE YOU GAUGED INVESTORS’ PERCEPTIONS OF THE**
10 **ISSUES IN THIS PROCEEDING?**

11 A. To supplement my own knowledge of the industry, I have reviewed various
12 reports related to the Company and its parent written by investment analysts. A
13 clear picture of investors’ perceptions emerges from these reports, which is in
14 keeping with my own views.

15 **Q. HAVE INVESTORS OFFERED EVALUATIONS OF SOUTH CAROLINA**
16 **REGULATION RELATIVE TO OTHER STATE COMMISSIONS?**

17 A. Yes. Regulatory Research Associates (RRA) has ranked the PSC from an
18 investor perspective. In its most recent quarterly evaluation of state regulatory
19 commissions, RRA accorded South Carolina regulation an “Average-1” rating.²
20 There are three tiers to RRA’s ranking scheme: Above Average, Average, and

² Regulatory Research Associates. “State Regulatory Evaluations.” July 15, 2009.

Below Average, with a numeric designation of 1, 2, or 3 (with 1 being the strongest) within the principal rating category employed to indicate relative strength therein. The regulatory firm notes that its evaluations:

The evaluations are assigned from an investor perspective and indicate the relative regulatory risk associated with the ownership of securities issued by the jurisdiction's electric, gas, and telephone utilities. Each evaluation is based upon our studies of the numerous factors affecting the regulatory process in the state, and is changed as major events occur that cause us to modify our view of the regulatory risk accruing to the ownership of utility securities in that individual jurisdiction.³

In its profile of the PSC, RRA stated:

South Carolina regulation continues to be relatively constructive and stable from an investor perspective. The PSC's most recently authorized equity returns have approximated or, been slightly above industry averages at the time established, and electric fuel clauses are in place. In addition, state law authorizes the PSC to issue an upfront 'used and useful' determination, approve certain pre construction costs, and allow a cash return on construction work in progress for nuclear generating plants. ... We continue to accord South Carolina regulation an Average/1 rating.⁴

Q. IN ADDITION TO RRA, HAVE OTHER FIRMS PROVIDED RANKINGS OF STATE COMMISSIONS?

A. Yes. Barclays Capital, in the firm's previously-referenced annual regulatory study, includes an evaluation of state utility commissions from an investor perspective.⁵ Tier 1 is deemed "Lowest Cost of Capital" and Tier 5, "Highest Cost of Capital." Barclays bases its rankings on six criteria: 1) elected

³ Ibid.

⁴ Regulatory Research Associates. "Public Service Commission of South Carolina." Quoted section updated 10/7/09.

⁵ The Barclays Capital utility analytical team was previously domiciled at Lehman Brothers. The team has authored the annual regulatory study since 2004.

1 versus appointed commissions; 2) mechanisms for more consistent, timely, and
2 transparent regulation, or not; 3) allowed ROEs; 4) settlements versus litigation; 5)
3 rate levels; and 6) a subjective investor friendliness rating. In its July 2009
4 assessment, the investment firm ranked South Carolina in “Tier 3” on this scale.⁶
5 This ranking indicates that the perception of the South Carolina regulatory
6 environment is one that affords an average cost of capital environment relative to
7 others states.

8 An additional point regarding the Barclays ranking bears mention.
9 According to the score derived from the firm’s analytical criteria referenced
10 above, the tally for South Carolina regulation was 8.32, which placed it 19th
11 among the 48 state commissions evaluated from an investor perspective. This
12 statistic confirms that the South Carolina regulatory environment is perceived as
13 being solidly in the center of regulatory jurisdictions nationwide from a cost of
14 capital perspective.

15 **Q. ARE THERE ADDITIONAL INFERENCES TO BE DRAWN FROM**
16 **INVESTORS’ GENERAL VIEWS OF REGULATION?**

17 A. Yes. One of the key factors analysts use to evaluate the quality of a
18 regulatory climate is the consistency of a commission’s decisions. Investors value
19 certainty and predictability; a lack of consistency in a commission’s actions or
20 decisions serves to increase the investment risk associated with a utility. Where

⁶Barclays Capital, Capital Management, *op. cit.*

1 there is a predictable track record of regulatory decisions and actions, investors are
2 able to anticipate reliably the future actions of a commission. That reduces risk
3 and supports reasonable valuations—i.e., the market supports a higher price for the
4 Company’s stock and a lower interest rate on bonds, which decreases a company’s
5 cost of capital. In a study I prepared in 2005 for the Edison Electric Institute on
6 investors’ perceptions of state regulation, respondents were asked to cite the
7 regulatory factors they felt characterized a constructive environment, as well as
8 those that characterize a non-constructive environment. On the positive side of the
9 ledger, one of the most important considerations for investors was a regulatory
10 climate that is “fair, stable, predictable, and consistent.”

11 On the other hand, actions that indicate that regulatory decision making
12 may no longer be predictable or fair, lead to the opposite result. The investors I
13 spoke with characterized a non-constructive regulatory environment as one that is
14 “arbitrary, inconsistent, and unwilling to acknowledge the economic realities that
15 utilities face.” One investor summed up that type of non-constructive regulation
16 as “regulatory purgatory.”⁷ In any event, actions that indicate to investors that
17 regulation is no longer fair, stable, predictable, and consistent can have a dramatic
18 impact on a utility’s cost of capital and access to capital markets on reasonable
19 terms—and, ultimately, the cost of service to customers.

⁷ J.M. Cannell, Inc., “State Utility Regulation: An Assessment of Investor Perceptions,” August 2005.

1 **Q. WHAT BEARING DOES THE INVESTOR REGULATORY RANKINGS**
2 **YOU'VE REFERENCED HAVE ON THE CURRENT PROCEEDING?**

3 A. Both RRA and Barclays Capital have a constructive opinion of South
4 Carolina regulation. While investors' opinion of regulation has always been
5 important in evaluating the electric utility industry and the individual companies
6 that comprise it, this factor is particularly critical now during a time of high
7 construction expenditures and a commensurate need for capital to support that
8 spending. As Barclays' comparative analysis suggests, the South Carolina
9 regulatory environment provides a setting that is solidly in the center compared to
10 what exists in other states. One of the factors analysts value most in assessing a
11 potential investment is consistency and predictability; the state regulatory
12 perception study I conducted for the Edison Electric Institute confirmed that fact.
13 South Carolina regulation is seen as consistent and predictable.

14 This is a precarious time for the electric utility industry. With companies—
15 SCE&G among them—facing increasing construction, environmental, and other
16 costs, and requiring reasonable access to the capital markets to fund those
17 requirements, constructive regulation is critical. The Commission is viewed as
18 having provided such consistent and fair regulation historically, leading investors
19 to expect a continuation of a constructive regulatory environment in the state
20 prospectively.

1 **Q. TURN NOW, PLEASE, TO THE VIEWPOINT OF CREDIT RATING**
2 **AGENCIES. PLEASE COMMENT ON HOW THE AGENCIES**
3 **PERCEIVE THE COMPANY AND ITS REGULATORY SITUATION.**

4 A. SCE&G continues to be rated as a solid investment grade credit. However,
5 the tightening of rating agency standards and the effects of the factors discussed
6 above have had a clear impact on SCE&G's ratings. SCE&G's senior secured
7 debt remains an A to A- credit, but it is not seen as favorably today as it was in
8 2008. S&P, Moody's and Fitch all downgraded the Company and its parent last
9 year due to the large nuclear construction program and financing required to fund
10 it, as well as the impact of other substantial capital expenditures on its credit
11 metrics.

12 The challenges facing SCANA and SCE&G notwithstanding, the agencies
13 universally view South Carolina as offering a supportive regulatory environment.
14 Given the magnitude of the capital expenditures and attendant financing that lie
15 ahead for the Company and its parent, the agencies stressed that it is critical for
16 constructive regulation to continue. This will entail recovery of not only nuclear-
17 related spending, but also of those investments pertaining to the existing utility
18 system and environmental compliance.

19 **Q. WHAT PROMPTED THE DOWNGRADES TO OCCUR?**

20 A. The primary reason for the action was increased risk associated with the
21 construction of additional nuclear units at the Summer plant and a decline in credit

1 quality measures. As S&P noted in lowering its ratings on the unsecured
2 obligations of SCANA and its subsidiaries to 'BBB+' from 'A-':

3 The rating action reflects an increase in business risk associated with
4 SCE&G's plans to build two new nuclear units combined with the need to
5 source a meaningful amount of external financing in order to complete the
6 projects. While we still consider the business risk profile for the
7 consolidated enterprise as excellent in our assessment, the expected
8 deterioration and pressure on the financial risk profile are not consistent
9 with our expectations for 'A' category ratings."⁸

10
11 Fitch offered a similar rationale:

12 The downgrades are driven by the financial pressure and increased business
13 risk from SCE&G's plans to construct and finance two nuclear generating
14 units for service in 2016 and 2019, respectively, and a decline in credit
15 quality measures over the past 18 months.⁹

16
17 Moody's expressed a like viewpoint:

18 The ratings downgrades for SCANA and SCE&G primarily reflect a
19 weakened balance sheet and lower key financial credit metrics and our
20 expectation that the financial profile will continue to exhibit some
21 weakness over the near and intermediate-term horizon. ... The weakening
22 financial ratios are expected to be accompanied by a significantly higher
23 business and operating risk profile, primarily associated with the new
24 nuclear construction project at the VC Summer facility located in
25 Jenkinsville, South Carolina.¹⁰

26
27 It bears mention that, while both Fitch and S&P now have a stable outlook for

28 SCE&G, Moody's maintains an outlook of "Negative." The agency stated:

29 "Ratings could also be pressured downward if there was an adverse change to the

⁸ Standard & Poor's. "SCANA Corp. Downgraded to 'BBB+' From 'A-' On Planned Nuclear Plants Construction." April 22, 2009.

⁹ Fitch Ratings. "Fitch Downgrades SCANA & Subsidiaries' IDRs to 'BBB+.'" June 25, 2009.

¹⁰ Moody's Investors Service. "Moody's Downgrades SCANA, SCE&G and affirms PSNC; rating outlooks changed to negative." July 14, 2009.

1 degree of support that the South Carolina legislature and/or the SCPSC
2 [Commission] provides to SCE&G for the prudently incurred cost recoveries, or if
3 the company experienced significant delays or problems with the construction of
4 V.C. Summer units 2 and 3.”¹¹

5 **Q. WAS THE QUALITY OF SOUTH CAROLINA REGULATION A FACTOR**
6 **IN THE DOWNGRADES?**

7 A. I think that the quality of regulation in South Carolina has played a very
8 important role in allowing SCE&G to retain its solid investment grade rating for
9 its secured debt, and has prevented a greater reduction in the rating of the
10 unsecured debt at SCANA. It is fair to say that, were South Carolina’s regulatory
11 environment not as constructive as it is, the agencies could have been more
12 punitive in their actions. At the same time, clearly it is imperative that supportive
13 regulation continue for the Company. For example, S&P, in enumerating the
14 strengths in SCE&G’s rating factors, observed: “South Carolina Electric & Gas
15 operates under a generally supportive regulatory environment.”¹² Moody’s also
16 cited the importance of constructive South Carolina regulation, which it described
17 as a “significant credit benefit:”

18 Political and Regulatory Support Essential

19
20 Given the higher risk nature of SCE&G’s business profile, in conjunction
21 with the construction of V.C. Summer units 2 and 3, there is an even
22 greater need for timely and adequate rate relief for the company. From a

¹¹ Moody’s Investors Service. “South Carolina Electric & Gas Company.” July 16, 2009.

¹² Standard & Poor’s. “South Carolina Electric & Gas Co.” April 23, 2009.

credit perspective, Moody's views the political and regulatory environment in South Carolina favorably.¹³

Q. ARE CONCERNS RELATED TO REGULATORY SUPPORT FOR NUCLEAR INVESTMENTS THE ONLY CONCERNS RATING AGENCIES HAVE EXPRESSED?

A. The rating agencies are also very sensitive to the fact that the Company is investing significant dollars for maintaining and expanding the utility's existing infrastructure, environmental compliance, and potentially for responding to new carbon regulations. While nuclear construction is undoubtedly a key investment focal point, SCE&G has ongoing utility infrastructure and operations that must be maintained, modernized, and expanded. As the following chart demonstrates, the Company's non-nuclear spending over the next few years is not insignificant, even in relation to nuclear:

SCE&G CAPEX 2010-2012
(\$ Millions)

	2010	2011	2012	Total
"Normal"	346	321	380	1047
New Nuclear	468	586	852	1906
"Normal" as a % of New Nuclear	74%	55%	45%	55%

Source: SCANA Corporation

¹³ Moody's Investors Service. Op. cit., July 16, 2009.

1 The credit rating agencies view recovery of these non-nuclear investment dollars
2 as critical. For example, S&P stated:

3 The large capital spending program contributes to the aggressive financial
4 risk profile and necessitates not only a balanced funding approach but,
5 importantly, timely rate relief for both the nuclear construction to collect a
6 cash return on construction work in progress, *but also through base rate*
7 *relief to address the ongoing capital spending needs of the remaining*
8 *company*. Absent such relief, the financial profile can weaken further,
9 placing additional downward pressure on ratings, even after accounting for
10 the company's plan to fund a portion of these capital expenditures with
11 equity issuances.¹⁴
12

13 Fitch echoed the same perspective: "The company's ability to secure non-nuclear
14 rate adjustments is an important ratings factor."¹⁵ For SCE&G to maintain a solid
15 credit rating and meet investors' expectations generally, it must be allowed to
16 recover its operating costs and earn a fair return on all its infrastructure
17 investment, nuclear and non-nuclear.

18 For that reason, the result in this proceeding will be seen both as an
19 indication of whether consistent and predictable regulation in South Carolina will
20 continue, and as an indication as to whether the Company will be able to obtain a
21 fair and timely recovery of its non-nuclear investments and other costs of
22 operating its system.
23

¹⁴ Standard & Poor's. "SCANA Corp." November 16, 2009. [emphasis added]

¹⁵ Fitch Ratings. "South Carolina Electric & Gas Company." August 3, 2009.

1 **Q. DO EQUITY INVESTORS SHARE SIMILAR VIEWS AND CONCERNS**
2 **ABOUT THE COMPANY AS THOSE EXPRESSED BY CREDIT RATING**
3 **AGENCIES?**

4 A. Yes, they do. Equity investors have a very positive opinion of the state's
5 regulation at this time, but if evidence were to arise that the supportive nature was
6 changing—similar to what was recently evidenced in Florida—investors would
7 undoubtedly reassess their investment in the Company and its parent. At a time
8 when access to the capital markets at a reasonable cost is essential for both
9 SCE&G and SCANA, regulatory actions that investors might perceive as punitive
10 or non-constructive would at a minimum make meeting the capital needs of the
11 Company more expensive and conceivably might result in capital not being
12 available at all. A key theme in reports issued by equity analysts is that the V.C.
13 Summer nuclear expansion and other capital needs of the Company make
14 sustained and consistent regulatory support essential to maintaining SCE&G's and
15 SCANA's financial health throughout the lengthy construction period.

16 **Q. PLEASE ELABORATE.**

17 A. Bank of America/Merrill Lynch captures the total picture well:
18 We see above-average growth potential for the company compared to other
19 regulated electrics, as it has a defined path for rate base expansion through
20 nuclear. However, despite very strong regulatory and political support for
21 nuclear plant construction, we remain cautious about the overall risks
22 associated with building a nuclear plant.¹⁶
23

¹⁶ Bank of America/Merrill Lynch. "SCANA Corp.: Cost control offsets weak industrial sales." April 27, 2009.

1 Wells Fargo also pointed out the link between growth and supportive regulation:

2 Given the constructive regulatory environments, as SCG's CapEx escalates
3 (including potential new nuclear) and those prudent investments are
4 recognized into rate base, regulated earnings power should grow.¹⁷
5

6 **Q. PLEASE EXPAND ON EQUITY INVESTORS' VIEWS ABOUT THE**
7 **NEED FOR THE CONSTRUCTIVE TREND IN SOUTH CAROLINA**
8 **REGULATION TO CONTINUE.**

9 A. As expressed in numerous research reports, investors consider regulation to
10 be the lynchpin essential to the Company's and its parent's maintaining a solid
11 financial foundation. Oppenheimer states this perspective succinctly, in
12 enumerating SCANA's investment risks:

13 **Continued Construction [sic] Regulatory Treatment Necessary.**
14 SCANA's earnings are primarily from the regulated subsidiaries and are
15 dependent on continued constructive treatment from regulators.¹⁸
16

17 Shields & Company echoes that opinion:

18 For SCANA, we also worry about regulation/legislation, interest rates, and
19 commodity energy costs. ... As in all electric utilities, regulatory decisions
20 are critical. The company faces a number of critical regulatory decisions
21 over the next several years that will help shape the fundamental outlook for
22 the company.¹⁹
23
24
25
26
27
28

¹⁷ Wells Fargo. "SCANA Corp.: SCG: Challenging Q3 Aided by Tax Issue—Long-Term Thesis Intact." October 27, 2009.

¹⁸ Oppenheimer. "SCANA Corporation: Steady Rate Base Growth through Nuclear Construction; Initiating at Perform." June 29, 2009.

¹⁹ Shields & Co. Ibid.

1 **Q. HAVE ANY INVESTORS ADDRESSED THE CURRENT RATE**
2
3 **PROCEEDING?**
4

5 A. Yes. Both Gabelli & Company and Wells Fargo expect a constructive
6 outcome for the rate case. Among the factors underlying their respective opinions
7 are: the major component of the request is for environmental expenditure
8 recovery; the existing earned ROE is low; the South Carolina regulatory
9 environment is constructive; the PSC recently authorized Duke Energy a 10.7%
10 ROE with the ability to earn up to 11%. As Gabelli & Company stated:

11 The filing was expected and requests rate recognition of \$700 million of
12 environmental compliance capital expenditures and un-recovered Lake
13 Murray dam reinforcement. Given the low earned ROE and environmental
14 basis for higher rates, we view recovery to be fairly low risk. We consider
15 the South Carolina regulatory environment to be constructive and note that
16 DUK recently (1/20/2010) received regulatory approval of an agreement
17 calling for a \$74 million base rate increase premised on a 10.7% ROE with
18 the ability to earn up to an 11% allowed ROE.²⁰
19

20 Wells Fargo's viewpoint is similar:

21 **Constructive outcome in SCE&G rate case expected.** On 1/15/10,
22 SCE&G requested a \$198MM (9.5%) increase in base electric rates
23 premised on an 11.6% ROE, a 53% equity ratio and a \$4.821B rate base
24 (test year ending 9/30/09). We do not anticipate an overly contentious rate
25 proceeding given the bulk of the request relates to recovery of
26 environmental projects, property taxes and other relatively low risk items.
27 In fact, O&M levels filed in the rate case are below what SCE&G filed in
28 its 2007 rate case and the phased-in proposal shows sensitivity given the
29 economic backdrop. SCE&G is currently allowed an 11% ROE with rates
30 set using a 10.7% ROE and we expect similar return parameters will be

²⁰ Gabelli & Company, Inc. "SCANA Corporation." February 16, 2010.

1 authorized in this case. We note that Duke Energy's South Carolina rate
2 order last month was based on the same 11%/10.7% ROE framework.²¹
3
4
5

6 **IV. INVESTORS' EXPECTATIONS FOR RETURN ON EQUITY FOR SCE&G**

7 **Q. HOW DO YOU BELIEVE THAT THE COMPANY'S REQUEST FOR AN**
8 **11.6% RETURN ON EQUITY COMPORTS WITH INVESTORS'**
9 **PERCEPTIONS?**

10 A. Investors will evaluate any ROE authorized by the Commission in light of a
11 number of factors including such things as the overall amount of the requested
12 increase that is granted, which bears on the Company's ability to earn the allowed
13 ROE, and whether or not there is a settlement in the case. The fact that an ROE is
14 arrived at through settlement is often seen as a positive factor for investors. In this
15 case, the Company has filed its application seeking an 11.6% ROE, which is
16 higher than the current authorized ROE level of 11.0%. This filing reflects the
17 rising risk levels in the macroeconomic and capital market environments, as well
18 as recognition on the part of both credit rating agencies and investors that
19 company-specific risks are increasing. Most importantly, an 11.6% authorized
20 ROE would represent a continuation of the constructive regulatory trend perceived
21 to be underway in South Carolina, help maintain the Company's financial health,
22 and assist in maintaining access to the debt and equity capital markets.

²¹ Wells Fargo Securities. "SCANA Corp. SCG: Reasonable Guidance Established; '10E EPS Lowered to \$2.95." February 11, 2010.

1 **Q. COULD A RETURN ON EQUITY AWARD THAT IS CONSISTENT WITH**
2 **INVESTOR EXPECTATIONS ALSO BE EXPECTED TO PROVIDE**
3 **BENEFITS TO THE COMPANY’S CUSTOMERS?**

4 A. Absolutely. A higher ROE permits the realization of a stronger earnings
5 stream. In turn, that can improve a company’s stock’s valuation prospects, which
6 results in a higher stock price. Thus, when a company needs to tap the equity
7 markets for capital required to meet customer needs, it can get more for its money.
8 Said another way, each share sold brings more equity into a company with the
9 same commitment by the company to generate earnings and pay dividends to
10 support the value of that share. In regard to debt financing, a higher ROE awarded
11 to the Company would be viewed as a sign of constructive regulation and would
12 be positive for the Company’s credit rating, as strengthened financial metrics
13 would help support the existing credit ratings. Importantly, customers’ rates will
14 eventually reflect this lower cost of capital.

16 **CONCLUSION**

17 **Q. PLEASE SUMMARIZE WHAT BEARING THE OPINION AND**
18 **EXPECTATIONS OF INVESTORS HAVE ON THE CURRENT**
19 **PROCEEDING.**

20 A. This is a precarious time for the electric utility industry. With companies—
21 SCE&G among them—facing continued high levels of construction,
22 environmental, and other costs, and requiring reasonable access to the capital

1 markets to fund those requirements, supportive regulation is critical. Investors are
2 aware of these factors, as well as the fact that SCE&G's building plans incorporate
3 new nuclear with its attendant risk, and expect the Commission to make decisions
4 in light of them that will enable the Company to meet its investment and other
5 requirements. Current market conditions, current trends in ROE awards, and
6 SCE&G's increased risks support an increase in the last allowed ROE.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.